GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0159	**Title:**	Provide for property tax relief for seniors
Primary Sponsor:	Garner, Frank	**Status:**	As Introduced

- ☑ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☑ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	($383,000)	($766,000)	($1,148,000)
State Special Revenue	$0	($24,000)	($48,000)	($72,000)
Net Impact-General Fund Balance:	$0	($383,000)	($766,000)	($1,148,000)

Description of fiscal impact: HB 159 allows owners of a home who are at least 65 years old and live in the home at least seven months a year to claim a limitation on increases in residential property tax. This bill would cause general fund revenue to decrease exponentially as the proportion of qualifying property owners increases over time.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Beginning with FY 2017 property tax bills, HB 159 provides for a property tax freeze for qualified residential property. Qualified property must be owned by someone 65 years of age or older, be the owner's principle dwelling for at least 7 months per year, and the owner may not rent or lease the property. The property tax freeze applies to the principle dwelling, up to one acre.

2. Property that qualifies for the property tax freeze would not be assessed property taxes greater than those that were assessed during the base year. The base year is the year that the owner is approved for the property tax freeze. The property tax in subsequent years may not exceed the base year property tax, but if during a subsequent year the property tax that would be assessed is less than the base year property tax, the base year will be reset to the current year and the tax payer will be assessed the lower property tax amount.
3. The property tax freeze expires when the owner of the property is no longer a qualified owner. The property tax freeze remains in effect when the qualified owner is deceased only when the owner's spouse retains ownership, is 55 years of age or greater, and is unmarried. The property tax freeze for a property will expire upon transfer of ownership, regardless if the new owner is qualified for the property tax freeze, when the property is moved out of the county, or property taxes are more than two years delinquent.
4. If a qualified owner increases the value of improvements due to construction or remodeling, the base year for the affected improvements is reset to the year of that change.
5. The property tax limitation does not apply to assessments for a special improvement district or a rural special improvement district.
6. Based on the personal income tax filings, there were $427.374 million in real property tax deductions claimed by all taxpayers in TY 2013. Of this amount, 34.13% ($145.843 million) was claimed by taxpayers who were over 65, or whose spouse was over 65.
7. Based on TY 2014 property tax records, there was $1,178.695 million in residential property taxable value for which $119.653 million in state property taxes were paid. That makes the average state mill values for these properties 101.513 mills. It is assumed that this average mill rate will apply to the forecast period.
8. The taxable value of the property owned by those eligible for the limitations in HB 159 is assumed to have the same ratio to the overall residential population and is assumed to be the same as in TY 2013(assumption #6), 34.13%. This implies the taxable value for affected properties is equal to $402.238 million in TY 2014.
9. Using the current reappraisal cycle data, under current law residential taxable value is anticipated to decrease by 7.81% in TY 15 and then increase annually by 1.08%, 1.07%, and 1.06% in TY 2016 through TY 2018, respectively.
10. The table below displays the estimated taxable values and state taxes for eligible properties in TY 2015 (FY 2016) through TY 2018 (FY 2019). Class 4 residential taxes are collected in the fiscal year following the tax year.

Estimated State Tax Reduction Due to HB 159 as Introduced (Millions $)

Tax Year	Taxable Value Reduction	State General Fund (95 and 1.5 mills)	Change in General Fund Revenue	State University (6 mill levies)	Change in State Special Revenue
TY 2015	$370.809	$35.284		$2.225	
TY 2016	$374.832	$35.666	-$0.383	$2.249	-$0.024
TY 2017	$378.855	$36.049	-$0.766	$2.273	-$0.048
TY 2018	$382.878	$36.432	-$1.148	$2.297	-$0.072

11. County treasurers are required to provide qualified taxpayers written notice showing base year property tax, current year property tax, and the amount of taxes and assessments due for the current year. The lower of the two amounts would become the mill levy portion of tax due.
12. This bill applies to property tax years beginning after December 31, 2015.
13. The department will need to create a new form which will be incorporated in the annual forms review process.

Fiscal Impact:	**FY 2016 Difference**	**FY 2017 Difference**	**FY 2018 Difference**	**FY 2019 Difference**
Department of Revenue				
Expenditures:				
TOTAL Expenditures	$0	$0	$0	$0
Funding of Expenditures:				
TOTAL Funding of Exp.	$0	$0	$0	$0
Revenues:				
General Fund (01)	$0	($383,000)	($766,000)	($1,148,000)
State Special Revenue (02)	$0	($24,000)	($48,000)	($72,000)
TOTAL Revenues	$0	($407,000)	($814,000)	($1,220,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	($383,000)	($766,000)	($1,148,000)
State Special Revenue (02)	$0	($24,000)	($48,000)	($72,000)

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

1. Because the department only assesses property and the county treasurer is responsible for administering and collecting the tax, county computer systems would likely need to be updated to track and freeze property values.
2. The change in the amount of property taxes paid to local governments and local schools by property that is granted the property tax limitation is displayed in the following table. To the extent that local governments can increase mills pursuant to 15-10-420, MCA, and school districts can increase mills pursuant to the school funding statutes (Title 20, Chapter 9, MCA), mills will increase and the property tax reductions for qualified taxpayers will shift to other taxpayers.

Estimated Local Government and Schools Tax Impact Due to HB 159 as Introduced (Millions $)					
Tax Year	**Taxable Value Reduction**	**Local Government (247.3 avg. mills)**	**Local Govt. Tax Shift**	**Schools (235.0 avg. mills)**	**School District Tax Shift**
TY 2015	$370.809	$91.701		$87.140	
TY 2016	$374.832	$92.696	-$0.995	$88.086	-$0.945
TY 2017	$378.855	$93.691	-$1.990	$89.031	-$1.891
TY 2018	$382.878	$94.686	-$2.985	$89.976	-$2.836

Long-Term Impacts:

Department of Revenue

1. The fiscal impact relative to current law is expected to grow over time based on two factors: 1) the differential between base year taxes for eligible claimants and taxes for all other residential property owners grows over time; and 2) as the proportion of home owners over age 65 is expected to grow through CY 2035.

Technical Notes:

Department of Revenue

1. To enhance efficiency of administration, eliminate proration and revision of tax bills mid-year, an amendment could clarify that the exemption granted for a tax year would continue for that tax year upon changes in ownership due to death, or sale to ineligible owners, with the exemption being removed for the following tax year.

Montana Association of Counties (MACO)

2. The bill will require a circular calculation as it limits actual taxes paid and not taxable value. Mills are calculated based on taxable value. Jurisdictions adjust mills to generate prior year revenue.
3. Some properties will have two taxable values, the base amount that is limited, but also the new value of any additions which is not limited.
4. Section 4 would require an additional notice without requiring DOR to inform treasurers which taxpayers qualify for the limitation

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*